

Molina Healthcare (MOH)

\$145.73 (As of 02/12/20)

Price Target (6-12 Months): **\$153.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/22/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: A

Growth: C

Momentum: F

Summary

Molina Healthcare's fourth-quarter 2019 adjusted earnings of \$2.73 per share surpassed the Zacks Consensus Estimate by 4.2% on the back of declining expenses. However, the bottom line fell 29.6% year over year due to lower revenues. Shares have outperformed its industry in a year's time. It is poised for growth on the back of its developmental strategies, improving top line, and its margin recovery. It began an enterprise-wide restructuring program to reduce expenses and enhance its overall operational efficiency. The company's solid 2020 guidance should instill investor's confidence in the stock. However, rising medical care costs along with dependence on debt financing has been draining its bottom line. Declining membership and weak Marketplace business bother.

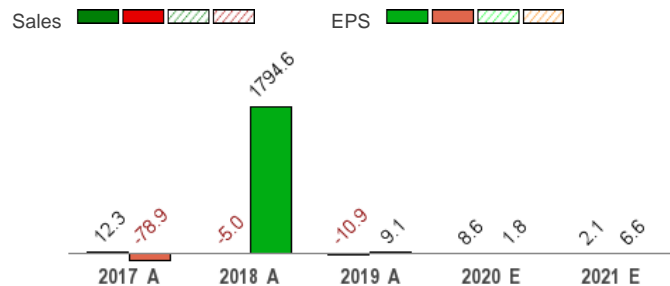
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$159.00 - \$106.50
20 Day Average Volume (sh)	650,461
Market Cap	\$9.1 B
YTD Price Change	7.4%
Beta	1.15
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - HMOs
Zacks Industry Rank	Top 8% (21 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.2%
Last Sales Surprise	0.1%
EPS F1 Est- 4 week change	-0.4%
Expected Report Date	05/04/2020
Earnings ESP	-0.4%
P/E TTM	12.5
P/E F1	12.4
PEG F1	1.0
P/S TTM	0.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,376 E	4,493 E	4,644 E	4,613 E	18,664 E
2020	4,427 E	4,610 E	4,548 E	4,518 E	18,280 E
2019	4,119 A	4,193 A	4,243 A	4,274 A	16,829 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$3.18 E	\$3.24 E	\$3.10 E	\$2.83 E	\$12.56 E
2020	\$3.19 E	\$3.10 E	\$2.93 E	\$2.63 E	\$11.78 E
2019	\$3.04 A	\$3.11 A	\$2.80 A	\$2.73 A	\$11.57 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/12/2020. The reports text is as of 02/13/2020.

Overview

Founded in 1980 and headquartered in Long Beach, CA, Molina Healthcare Inc. is a multi-state managed care organization participating exclusively in government-sponsored healthcare programs such as the Medicaid program and the State Children's Health Insurance Program (SCHIP), catering to low-income persons.

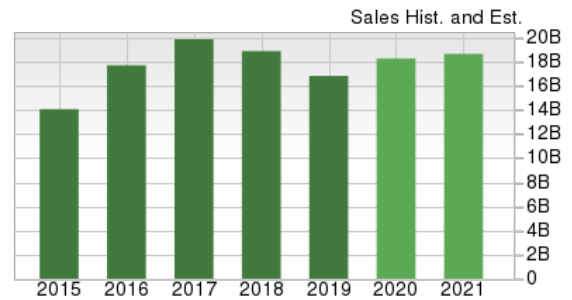
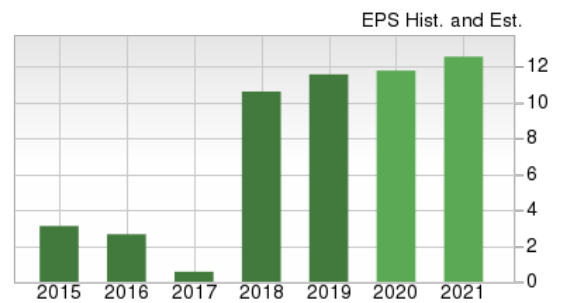
Molina Healthcare was formerly known as American Family Care Inc. until it changed its name in Mar 2000. The company currently operates in two segments: Health Plans and Other.

The company manages most of its operations through the Health Plans segment. The Other segment mainly includes the results of the Pathways behavioral health unit, which Molina sold in the fourth quarter of 2018 apart from other corporate amounts not allocated to the segment.

As of Dec 31, 2019, the company served around 3.3 million members through its locally-operated health plans across several markets.

The health plans are locally operated by wholly owned subsidiaries of Molina, each of which is licensed as a health maintenance organization, or HMO. Molina Healthcare derives revenues primarily from premiums paid to its health plans by the relevant state Medicaid authority. The premium revenues are jointly financed by the federal government and the states.

The company also derives revenues from the federal Centers for Medicare and Medicaid Services (CMS) in connection with its Medicare services.



Reasons To Buy:

- ▲ **Share Price Movement:** Shares of Molina Healthcare have outperformed its industry's growth in a year's time. Solid fundamentals, such as the growing top line and the restructuring plan are likely to help the stock consistently perform well going forward.
- ▲ **Promising Top Line:** Molina Healthcare has seen consistent growth in its revenue base over the past several years. Total revenues have witnessed a five-year CAGR (2012-17) of 27.4%. Although the metric declined almost 5% and 11% year over year in 2018 and 2019, the company's solid fundamentals, such as premium revenues would likely help the same grow going forward. Given the restructuring initiatives and developmental strategies, we expect revenues to bounce back going forward. For 2020, total revenues are expected to be \$18.3 billion, up 8.7% year over year.
- ▲ **Restructuring Initiative:** The company has been gaining from the restructuring and profitability improvement plan started back in 2017. The plan included streamlining of organizational structure to improve efficiency as well as the speed and quality of decision-making. This initiative led to a total expense decline by 13.2% and 11% in 2018 and 2019, respectively. The general and administrative expense ratio is also projected to improve 7.2% in 2020. We expect this initiative to help curb costs going forward. As a part of this initiative, the company sold its units, Pathways Health and Community Support, LLC and Molina Medicaid Solutions, which is expected to help it focus on core growth areas.
- ▲ **Solid 2020 Guidance:** Following 2019 results, the company released a solid 2020 guidance. For the full year, it expects its premium revenues to be \$17.4 billion, indicating a rise of 7.4% from 2019's reported figure. Total revenues are expected to be \$18.3 billion, suggesting an 8.7% increase from the year-ago reported number. Assuming that the YourCare and NextLevel buyouts will close by Jun 30, 2020, premium revenues is projected to rise 9% year over year. Medical care ratio is anticipated in the band of 86.2-86.4%. The company anticipates earnings in the range of \$11.20-\$11.70 per share. Total membership is predicted to be 3.4 million, implying an uptick of 2.1% from the year-earlier reported figure.
- ▲ **Capital Deployment:** On the back of its balance sheet strength, the company has been deploying capital to enhance shareholder value. Its board of directors authorized a share repurchase plan of up to \$500 million. Its operating cash flow also improved significantly in 2019 on premium receipt timing and government payments. Its impressive capital position, which assists in efficient capital management, should attract investors' attention.
- ▲ **Strong ROE:** Its return on equity — a profitability measure — is 40.8%, better than the industry average of 23.4%. The metric reflects the company's effectiveness in utilizing shareholders' money, which is impressive to the investors.

Molina Healthcare's ability to engage in inorganic growth initiatives and capital deployment reflect an improved financial position. Its solid 2019 guidance impresses.

Reasons To Sell:

- ▼ **Weak Marketplace Performance:** Due to disappointing performance of the Marketplace business, the company exited certain unprofitable exchanges. This, in turn, caused a membership decline of 14.2% and 24.3% from the business line in 2018 and 2019, respectively. In 2019, premium revenues from this business fell 21.7% year over year. Although the company started 2020 with 350,000 members and forecasts 9.2% revenue growth from this segment, indicating a rise from the prior-year reported number, growth from this business line still remains a concern for us.
- ▼ **Membership to Decline:** Although its membership has been growing consistently over the past few years through the creation of health plans and development of the existing ones, membership in 2018 and 2019 fell 14.2% and 12.8%, respectively, year over year. Moreover, the company's Medicaid membership suffered due to loss of contracts in Florida and New Mexico during late 2018 and early 2019, which remains a concern.
- ▼ **High Financial Leverage:** Molina Healthcare's rising debt level has led to a rise in interest expenses. On average, long-term debt rose at 27% rate from 2012 to 2017. Although the metric declined 22.6% in 2018, it again increased 21.3% in 2019 compared with the 2018-end level. Its long-term debt-to-equity ratio stands at 75%, higher than its industry average of 65.4%. The company's high leverage raises financial risk.

High medical care costs, weak Marketplace platform and declining membership are headwinds for the company. High financial leverage also bothers.

Last Earnings Report

Molina Healthcare's Q4 Earnings Surpass, Decline Y/Y

Molina Healthcare's fourth-quarter 2019 adjusted earnings of \$2.73 per share surpassed the Zacks Consensus Estimate by 4.2% on the back of declining expenses. However, the bottom line fell 29.6% year over year, mainly due to lower revenues.

Also, total revenues of \$4.2 billion came almost in line with the Zacks Consensus Estimate. However, the top line was down 8.4% year over year, mainly due to loss of Medicaid membership.

Quarter Ending **12/2019**

Report Date	Feb 10, 2020
Sales Surprise	0.05%
EPS Surprise	4.20%
Quarterly EPS	2.73
Annual EPS (TTM)	11.68

Quarterly Operational Update

The company's net income totaled \$168 million, down 16.4% year over year.

Total operating expenses decreased 7.1% year over year to \$4 billion. This improvement was attributable to lower Medical care costs and null cost of service revenues.

For the quarter under review, medical care cost was down 6.1% year over year to nearly \$3.5 billion.

Molina Healthcare's interest expenses dropped 16.7% year over year to \$20 million owing to constant repayment of convertible notes.

Total membership by Government Program for 2019 stands at 3.3 billion, down 12.8% year over year.

Financial Update

As of Dec 31, 2019, Molina Healthcare's cash and cash equivalents saw a reduction of 13.2% to \$2.4 billion from the level at 2018 end.

Total assets fell 5.1% from the level at 2018 end to \$6.7 billion.

The company's shareholder equity improved nearly 19% from the figure at 2018 end to \$1.9 billion.

For 2019, net cash flow from operating activities stands at \$427 million against 2018's net cash outflow of \$314 million.

Share Repurchase and Dividend Update

In December 2019, the company's board of directors authorized a share buyback plan of up to \$500 million. During the fourth quarter, Molina Healthcare received \$305 million of dividends from regulated health plan subsidiaries.

2020 Guidance

Following fourth-quarter results, the company issued its 2020 outlook. It expects earnings in the range of \$11.20-\$11.70 per share. It also projects premium revenue growth of 7.4%.

For the current year, the company anticipates its premium revenues to be \$17.4 billion and total revenues to be \$18.3 billion. Total membership of the company is predicted to be 3.4 million.

Full-Year Update

Net income for the year ended Dec 31, 2019 increased 4.2% year over year to \$737 million. Revenues for the year totaled \$16.8 billion, down 11% year over year.

Recent News

Molina Healthcare to Acquire NextLevel — Jan 6, 2020

Molina Healthcare has entered into a definitive agreement to purchase all the capital stocks of NextLevel Health Partners, Inc., a Medicaid managed care organization. This all-cash deal of around \$50 million is subject to closing conditions. The transaction is expected to be completed in early 2020.

Molina Healthcare Announces New Share Repurchase Plan — Dec 13, 2019

Molina Healthcare's board of directors recently authorized a share repurchase plan worth up to \$500 million of its outstanding common shares, which will extend through Dec 31, 2021.

Molina Healthcare Wins Kentucky Medicaid Managed Care Deal — Dec 2, 2019

Molina Healthcare announced that its Kentucky health plan subsidiary was awarded a new five-year Kentucky Medicaid managed care contract.

Molina Healthcare to Expand Existence in New York — Oct 16, 2019

Molina Healthcare recently announced its agreement to purchase certain assets of YourCare Health Plan, Inc., a not-for-profit unit of Monroe Plan for Medical Care. Through this deal, Molina will assume the right to cater to around 46,000 Medicaid members across seven counties in the Western New York and Finger Lakes regions. The \$40-million worth acquisition, subject to closing conditions, will be funded via cash.

Valuation

Molina Healthcare shares are up 7.1% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are up 10.5% and 3.7%, respectively.

The S&P 500 index is up 22.2% in the past year.

The stock is currently trading at 4.99X trailing 12-month tangible book value, which compares to 3.64X for the Zacks sub-industry, 4.65X for the Zacks sector and 4.36X for the S&P 500 index.

Over the past five years, the stock has traded as high as 5.92X and as low as 1.47X, with a 5-year median of 3.02X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$153 price target reflects 5.23X tangible book value.

The table below shows summary valuation data for MOH

Valuation Multiples - MOH					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	4.99	3.64	4.65	4.36
	5-Year High	5.92	4.07	5.04	4.42
	5-Year Low	1.47	2.46	3.44	2.85
	5-Year Median	3.02	3.1	4.31	3.62
P/S F12M	Current	0.51	0.77	2.86	3.58
	5-Year High	0.57	0.86	3.83	3.58
	5-Year Low	0.12	0.48	2.45	2.54
	5-Year Median	0.23	0.67	2.96	3

As of 02/12/2020

Industry Analysis Zacks Industry Rank: Top 8% (21 out of 254)



Top Peers

The Joint Corp. (JYNT)	Outperform
Select Medical Holdings Corporation (SEM)	Outperform
Anthem, Inc. (ANTM)	Neutral
Centene Corporation (CNC)	Neutral
Humana Inc. (HUM)	Neutral
Magellan Health, Inc. (MGLN)	Neutral
UnitedHealth Group Incorporated (UNH)	Neutral

Industry Comparison Industry: Medical - Hmos				Industry Peers		
	MOH Neutral	X Industry	S&P 500	JYNT Outperform	MGLN Neutral	SEM Outperform
VGM Score	C	-	-	D	A	A
Market Cap	9.14 B	2.61 B	24.31 B	228.32 M	1.81 B	3.40 B
# of Analysts	9	4	13	2	3	2
Dividend Yield	0.00%	0.00%	1.78%	0.00%	0.00%	0.00%
Value Score	A	-	-	F	A	A
Cash/Price	0.55	0.28	0.04	0.03	0.40	0.04
EV/EBITDA	4.97	8.78	13.97	131.09	8.45	11.46
PEG Ratio	0.99	1.15	2.06	NA	0.69	1.30
Price/Book (P/B)	4.66	3.62	3.24	59.94	1.33	3.79
Price/Cash Flow (P/CF)	10.92	11.52	13.65	105.11	9.21	9.81
P/E (F1)	12.37	16.99	19.12	46.39	15.76	18.22
Price/Sales (P/S)	0.54	0.64	2.67	5.23	0.25	0.64
Earnings Yield	8.08%	5.49%	5.23%	2.13%	6.34%	5.49%
Debt/Equity	0.75	0.58	0.70	3.11	0.51	4.61
Cash Flow (\$/share)	13.35	6.70	6.94	0.16	8.05	2.58
Growth Score	C	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	46.35%	19.46%	10.85%	NA	-1.22%	3.97%
Proj. EPS Growth (F1/F0)	1.81%	9.92%	7.30%	65.12%	35.80%	24.66%
Curr. Cash Flow Growth	-4.67%	13.35%	8.92%	-271.07%	-23.15%	16.18%
Hist. Cash Flow Growth (3-5 yrs)	38.83%	12.98%	8.36%	56.94%	-1.10%	12.24%
Current Ratio	1.83	1.61	1.22	0.84	1.70	1.21
Debt/Capital	42.82%	37.43%	42.90%	75.68%	33.78%	84.99%
Net Margin	4.38%	4.17%	11.81%	6.57%	0.10%	2.62%
Return on Equity	40.80%	16.16%	16.98%	104.54%	3.21%	15.97%
Sales/Assets	2.43	1.43	0.54	1.29	2.35	0.78
Proj. Sales Growth (F1/F0)	7.94%	13.47%	3.90%	26.21%	3.56%	4.52%
Momentum Score	F	-	-	F	C	F
Daily Price Chg	3.05%	1.47%	0.65%	-0.18%	1.73%	1.24%
1 Week Price Chg	4.09%	3.24%	2.47%	2.40%	-0.04%	4.12%
4 Week Price Chg	4.88%	2.66%	1.35%	1.86%	-4.37%	6.52%
12 Week Price Chg	7.53%	-0.69%	5.63%	-9.26%	-2.73%	18.65%
52 Week Price Chg	6.36%	4.42%	16.19%	82.19%	16.72%	64.31%
20 Day Average Volume	650,461	422,734	1,995,746	81,796	112,401	885,796
(F1) EPS Est 1 week change	-0.44%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.44%	0.00%	0.00%	-4.91%	0.00%	2.96%
(F1) EPS Est 12 week change	-0.51%	-0.51%	-0.19%	-4.91%	-2.08%	2.96%
(Q1) EPS Est Mthly Chg	-2.33%	-2.33%	0.00%	0.00%	0.00%	0.00%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	C
Momentum Score	F
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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